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November 8, 1977

Letter Report 727

Honorable Mike Cullen
Chairman, and Members of the
Joint Legislative Audit Committee
925 L Street, Suite 750
Sacramento, California 95814

Dear Mr. Chairman and Members:

Pursuant to your Committee's request, we have contributed one of our audit staff to a study of interagency audit coordination conducted by the Western Intergovernmental Audit Forum. The Forum is an association of government audit agencies who are participating in a national Joint Financial Management Improvement Program begun in January 1977. The Program is a cooperative effort of the U.S. General Accounting Office, the Office of Management and Budget, the Treasury Department, the U.S. Civil Service Commission and the Office of the Auditor General. After studying the reported extent of audit duplication and lack of coordination at federal and state agencies, the Audit Forum requested your Committee's participation to survey the nature of the problem at specified local government and private agencies.

The Study's focus is on identifying and evaluating problems of duplicated audits, uncoordinated audits, and insufficient auditing of federally assisted programs. At the Forum's direction, we interviewed the following six officials at sample local agencies selected by the Forum:

Fiscal Director, City of Napa
Auditor-Controller, Napa County
Finance Director, Yuba City
Auditor-Controller, Sutter County
Director of Administration, Association of
Bay Area Governments (ABAG)
Controller, A. Teichert & Son, Inc.

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Using a questionnaire developed by the Forum, we acquired information about the number of grants awarded to the agency in the last three years, and the nature of any audits or other reviews conducted of the agency's administration. A particular concern was whether agencies were reimbursed for out-of-pocket expenses to have audits conducted. We also solicited official comments about any perceived problems of audit duplication or uncoordination. All but one of the agencies contributed some research effort to develop the requested statistical information. (The Controller for A. Teichert & Son, Inc. declined to contribute staff research.) The Forum's study did not call for any verification of the information reported to us.

Our fieldwork on this project did not reveal a significant problem of audit duplication or uncoordination in California. Where duplicated or uncoordinated auditing occurs, it appears justified to meet the differing needs of various state and federal agencies. However, some consolidation of audit effort may be feasible, especially in auditing small agencies or those whose funding is largely governed by uniform regulations. Officials from some of the sampled agencies endorsed the consolidated audit concept, and ABAG has implemented it.

ABAG is supported almost exclusively from a score of local, state and (mostly) federal grants, but none of the grantors has complained about the annual consolidated audit conducted by an independent CPA firm according to the largest grantor's audit guidelines. The audit covers both financial accounts and compliance with applicable regulations.

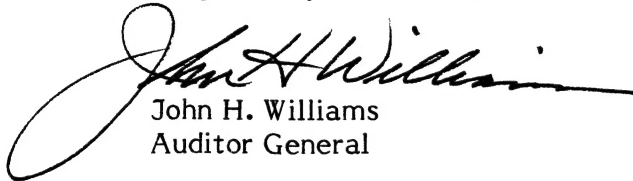
We did find significant variations among the extent of auditing required or conducted by grantor agencies. Many such variations in the frequency and coverage of audits are related to the nature of the grant program or the size of the grantee's award. Programs with specified phases or termination dates are usually audited according to such schedules, whereas the administration of a continuing grant program is audited at a regular interval, usually annually. Larger grants tend to be audited more frequently and more extensively than smaller grants. Such audit priorities and scheduling may reflect a philosophy of maximizing audit productivity. However, there are exceptions to these principles; the local auditors sampled reported several examples of unaudited programs.

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Our fieldwork disclosed that some federal grantors do not reimburse local agencies for required audits paid for by the local agency. Although this does not appear to present a severe hardship to the local agencies, grantors should be encouraged to make provision for necessary auditing costs in grant contracts.

We have forwarded a summary of our detailed findings to the U.S. General Accounting Office for transmission to the Forum. A national report is expected in the summer of 1978. We have appreciated this opportunity to contribute to improved governmental auditing.

Respectfully submitted,

A handwritten signature in cursive script, reading "John H. Williams". The signature is written in dark ink and is positioned above the printed name and title.

John H. Williams
Auditor General

Staff: David B. Tacy

JHW:DT:lh